

OPEN MEETING AGENDA ITEM



0000141383

ORIGINAL

MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

EA for SMD

DATE: January 11, 2013

RE: SUPPLEMENTAL STAFF REPORT IN RESPONSE TO KOHL'S RANCH WATER COMPANY'S FILING OF ITS COMMENTS TO THE ORIGINAL STAFF REPORT REGARDING ITS APPLICATION FOR A RATE INCREASE (DOCKET NO. W-02886A-12-0190)

Kohl's Ranch Water Company ("Kohl's Ranch" or "Company") filed comments to the original Staff Report. Staff hereby submits the attached Supplemental Staff Report in response to Kohl's Ranch filing comments regarding its application for a rate increase. Staff recommends approval of the rate increase application using Staff's recommended Supplemental rates and charges.

Any party who wishes may file comments to the Supplemental Staff Report with the Commission's Docket Control by 4:00 p.m. on or before January 22, 2013.

SMO:BCA:tdp\BS

Originator: Brendan C. Aladi

Arizona Corporation Commission

DOCKETED

JAN 11 2013

DOCKETED BY	<i>[Signature]</i>
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DOCKET CONTROL
2013 JAN 11 3:55

RECEIVED

Service List for: Kohl's Ranch Water Company
Docket No. W-02886A-12-0190

Mr. Douglas Thorne
Kohl's Ranch Water Company
Post Office Box 206
Payson, Arizona 85547

**SUPPLEMENTAL STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

KOHL'S RANCH WATER COMPANY

DOCKET NO. W-02886A-12-0190

**APPLICATION FOR
A PERMANENT RATE INCREASE**

JANUARY 11, 2013

STAFF ACKNOWLEDGMENT

The Supplemental Staff Report for Kohl's Ranch Water Company, Docket No. W-02886A-12-0190 was the responsibility of the Staff member listed below. Brendan C. Aladi was responsible for the financial review and analysis of the Company's application.

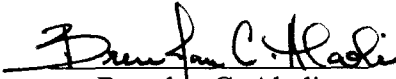

Brendan C. Aladi
Public Utilities Analyst III

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INTRODUCTION

Kohl's Ranch Water Company ("Kohl's Ranch" or "Company") is a Class D for-profit Arizona public service corporation that provides potable water service to approximately 123 metered customers in Gila County, Arizona.

On May 25, 2012, Kohl's Ranch filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On October 22, 2012, Staff filed its Staff Report recommending approval of the rate application using Staff's recommended rates and charges.

COMMENT TO THE STAFF REPORT

Shortly after the Staff Report was filed, Kohl's Ranch filed comments to the Staff Report and Staff hereby responds to those comments.

The Company did not include and provide supporting documentation for purchased power expense totaling \$2,936 in the original application. The Company requests that this be included in the Staff analysis.

STAFF ANALYSIS, CONCLUSION AND RECOMMENDATION

Purchased power expense is understated in the original Staff Report. Schedule BCA-3, page 2 of 4, reports purchased power expense of \$3,843. The Company has provided additional purchased power expense supporting documentation totaling \$2,868. Staff corrects the amount and recognizes \$6,711 in total purchased power expense.

Staff Recommended Operating Revenue

The correction noted in this Supplemental Staff Report changes Staff's recommended total operating revenue to \$103,808, a decrease of \$5,503, or 5.03 percent below the Company adjusted test year revenue of \$109,311 as shown on Supplemental Schedule BCA-1. This is an increase of \$3,408 from what was recommended in the original Staff Report.

Working Capital

Staff also modified cash working capital because of the change in the operating and maintenance expense. Staff adjustments to working capital resulted in a net increase of \$8,758, from \$0 to \$8,758 as shown on Supplemental Schedule BCA-2, primarily as a result of increasing cash working capital. This is an increase of \$120 from what was recommended in the original Staff Report.

Rate Base

Staff also modified Rate Base because of the change in cash working capital. Staff's adjustments decreased the Company's proposed rate base by \$145,056, from \$157,356 to \$12,300 as shown on Supplemental Schedule BCA-2. This is an increase of \$120 from what was recommended in the original Staff Report.

Purchased Power Expense

As noted, purchased power expense is understated by Staff in the original Staff Report. Adjustment B decreases purchased power expense by \$68, from \$6,779 to \$6,711 as shown on Supplemental Schedule BCA-3, pages 1 and 2. This is an increase of \$2,868 from what was recommended in the original Staff Report.

Operating Margin

The Company's proposed rates and charges would provide an operating income of \$1,123, for an operating margin of .95 percent.

Staff recommended rates and charges would provide an operating income of \$15,667 for an operating margin of 15.09 percent as shown on Supplemental Schedule BCA-1. Staff utilizes cash flow to determine revenue requirement in this case due to the Company's small rate base.

Revenue Requirement

Staff recommends total operating revenue of \$103,808, a decrease of \$5,503, or 5.03 percent below Staff adjusted test year revenue of \$109,311. This is an increase of \$3,408 from what was recommended in the original Staff Report.

Staff's recommended increase provides the Company with adequate cash flow to meet its normal operating expenses, maintain its water system and fund contingencies.

Rate Design

Supplemental Schedule BCA-4 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter residential bill with a median usage of 617 gallons from \$25.84 to \$31.85, an increase of \$6.01 or 23.3 percent as shown on Supplemental Schedule BCA-5.

Staff's recommended rates would decrease the typical residential 5/8 x 3/4-inch meter residential bill with a median usage of 617 gallons from \$25.84 to \$23.88, a decrease of \$1.96 or 7.6 percent as shown on Supplemental Schedule BCA-5.

Staff Recommendation

Staff recommends approval of the Staff recommended rates and charges as shown on Supplemental Schedule BCA-4

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$109,311	\$109,311	\$117,957	\$103,808
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
Total Operating Revenue	\$109,311	\$109,311	\$117,957	\$103,808
Operating Expenses:				
Operation and Maintenance	\$100,957	\$74,629	\$100,865	\$74,537
Depreciation	5,749	642	5,749	642
Property & Other Taxes	8,767	9,111	8,767	8,817
Income Tax	1,453	5,477	1,453	4,145
Total Operating Expense	\$116,926	\$89,858	\$116,834	\$88,141
Operating Income/(Loss)	(\$7,615)	\$19,452	\$1,123	\$15,667
Rate Base (Company = RCN) (Staff = R.C.N.D)	\$157,356	\$12,300	\$157,356	\$12,300
Rate of Return (Company = RCN) (Staff = R.C.N.D)	N/M	158.15%	0.71%	127.38%
Operating Margin	N/M	17.80%	0.95%	15.09%
Cash Flow			\$	16,309

RATE BASE

	-- Reconstruction Cost New --		
	Company	Adjustment	Staff
Plant in Service	\$163,150	(\$40) A	\$163,110
Less:			
Accum. Depreciation	5,794	153,774 B	159,568
Net Plant	\$157,356	(\$153,814)	\$3,542
Less:			
Plant Advances	0	0	0
Accumulated Deferred Income Taxes	-	0	-
Total Advances	-	0	-
Contributions Gross	0	0	0
Less:			
Amortization of CIAC	0	0	0
Net CIAC	0	0	0
Total Deductions	-	0	-
Plus:			
1/24 Power	0	\$280 C	\$280
1/8 Operation & Maint.	0	8,478 D	8,478
Inventory	0	0	0
Prepayments	0	0	0
Total Additions	\$0	\$8,758	\$8,758
Rate Base	\$157,356	(\$145,056)	\$12,300

Explanation of Adjustment:

- A - Refer to Schedule BCA-2, Pages 2,3 and 4.
- B - Refer to Schedule BCA-2, Page 5.
- C - Refer to Schedule BCA-2, Page 6.
- D - Refer to Schedule BCA-2, Page 6.

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments		Staff Adjusted
Revenues:				
461 Metered Water Revenue	\$109,311	\$0		\$109,311
460 Unmetered Water Revenue	0	0		0
474 Other Water Revenues	0	0		0
Total Operating Revenue	\$109,311	\$0		\$109,311
Operating Expenses:				
601 Salaries and Wages	\$24,000	\$16,000	A	\$40,000
610 Purchased Water	0	0		0
615 Purchased Power	6,779	(68)	B	6,711
618 Chemicals	966	0		966
620 Repairs and Maintenance	3,550	0		3,550
621 Office Supplies & Expense	4,433	(0)		4,433
630 Outside Services	47,922	(40,322)	C	7,600
635 Water Testing	3,905	(1,530)	D	2,375
641 Rents	0	0		0
650 Transportation Expenses	6,669	0		6,669
657 Insurance - General Liability	2,641	(408)	E	2,233
665 Regulatory Commission Expense	0	0		0
666 Regulatory Commission Expense - Rate Case	0	0		0
675 Miscellaneous Expense	92	(0)		92
403 Depreciation Expense	5,749	(5,107)	F	642
408 Taxes Other Than Income	6,607	(3,329)	G	3,278
408.11 Property Taxes	2,160	3,673	H	5,833
409 Income Tax	1,453	4,023	I	5,477
Total Operating Expenses	\$116,926	(\$27,068)		\$89,859
OPERATING INCOME/(LOSS)	(\$7,615)	\$27,068		\$19,453

STAFF ADJUSTMENTS

A -	SALARIES AND WAGES EXPENSE - Per Company	\$24,000	
	Per Staff	<u>40,000</u>	<u>\$16,000</u>

To transfer Mr. Thorne's \$20,000 outside services expense to salaries and wages expense and remove Ms. Thorne's \$4,000 excess salaries and wages expense.

B -	PURCHASED POWER - Per Company	\$6,779	
	Per Staff	<u>6,711</u>	<u>(\$68)</u>

To remove \$68 in cut of test year expense.

C -	OUTSIDE SERVICES - Per Company	\$47,922	
	Per Staff	<u>7,600</u>	<u>(\$40,322)</u>

To recognize \$7,600 in outside services expense going forward, transfer \$18,000 to salaries expense and remove \$22,922 in unnecessary outside services expense.

D -	WATER TESTING - Per Company	\$3,905	
	Per Staff	<u>2,375</u>	<u>(\$1,530)</u>

To reflect annual water testing expense, per Staff's Engineering Report.

E -	GENERAL LIABILITY INSURANCE - Per Company	\$2,641	
	Per Staff	<u>2,233</u>	<u>(\$408)</u>

To adjust to the updated, verified and supported general liability insurance expense.

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed	Staff Recommended
5/8" x 3/4" Meter (\$5.75 + \$20.00)	\$25.84	\$30.00	\$ 22.65
3/4" Meter	NT	NT	22.65
1" Meter	NT	NT	56.63
1½" Meter	NT	NT	113.25
2" Meter	NT	NT	181.20
3" Meter	NT	NT	362.40
4" Meter	NT	NT	566.25
6" Meter (\$5.75 + \$2,900)	\$2,905.75	\$ 2,934.15	1,825.00
Gallons in Minimum	5,000	0	0

Commodity Rates (Per 1,000 gallons)

All Meter Sizes

First Tier - 0 - 5,000 gallons	\$ -	\$ 3.00	N/A
Second Tier - 5,001 - 25,000 gallons (\$.50+\$3.00)	\$ 3.50	\$ 5.50	N/A
Third Tier - 25,001 - 60,000 gallons (\$.50+\$4.50)	\$ 5.00	\$ 7.00	N/A
Fourth Tier - Over 60,000 gallons (\$.50+\$6.00)	\$ 6.50	\$ -	N/A

5/8 x 3/4 - inch Meter

First Tier - 0 - 2,000 gallons	N/A	N/A	\$ 2.00
Second Tier - 2,001 - 10,000 gallons	N/A	N/A	\$ 4.00
Third Tier - Over 10,000 gallons	N/A	N/A	\$ 7.81

6 - inch Meter

First Tier - 0 - 60,000 gallons	N/A	N/A	4.00
Second Tier - Over 60,000 gallons	N/A	N/A	7.81

	Company Current Tariff	Company Proposed Tariff		Service Line Charges	Meter Charges	Total Charges
Service Line and Meter Installation Charges						
5/8" x 3/4" Meter	\$100	\$100		\$ 415	\$ 105	\$ 520
3/4" Meter	120	120		415	205	620
1" Meter	160	160		465	265	730
1½" Meter	300	300		520	475	995
2" Meter	400	400		N/A	N/A	N/A
2" Meter Turbine	N/A	N/A		800	995	1,795
2" Meter Compound	N/A	N/A		800	1,840	2,640
3" Meter	N/A	N/A		N/A	N/A	N/A
3" Meter Turbine	N/A	N/A		1,015	1,620	2,635
3" Meter Compound	N/A	N/A		1,135	2,495	3,630
4" Meter	N/A	N/A		N/A	N/A	N/A
4" Meter Turbine	N/A	N/A		1,430	2,570	4,000
4" Meter Compound	N/A	N/A		1,610	3,545	5,155
6" Meter	500	700		N/A	N/A	N/A
6" Meter Turbine	N/A	N/A		2,150	4,925	7,075
6" Meter Compound	N/A	N/A		2,270	6,820	9,090

Service Charges

Establishment	\$ 25.00	\$50.00	\$25.00
Establishment (After Hours)	\$ 35.00	0.00	NT
Reconnection (Delinquent)	\$ 35.00	35.00	\$35.00
Reconnection (Delinquent after hours)	\$ 45.00	0.00	NT
Meter Test (If Correct)	\$ 35.00	65.00	\$35.00
Deposit	*	*	*
Deposit Interest Per Annum	*	8.00%	*
Re-Establishment (Within 12 Months)	**	Per Rule	**
NSF Check	\$ 25.00	50.00	\$25.00
Deferred Payment - Per Month	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	\$ 15.00	30.00	\$15.00
Late Payment Charge-Per Month	1.50%	1.50%	1.50%
Service Charge (After Hours)	NT	NT	\$40.00

* Per Commission Rules (R14-2-403.B)

** Number of months off system times the monthly minimum (R14-2-403(D)).

NT = No Tariff

TYPICAL BILL ANALYSIS

5/8 x 3/4 Inch Meter

WITH REFLECTION OF SURCHARGES IN CURRENT RATES

Average Number of Customers: 122

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	2,089	\$25.84	\$36.27	\$10.43	40.4%
Median Usage	617	\$25.84	\$31.85	\$6.01	23.3%
<u>Staff Recommend</u>					
Average Usage	2,089	\$25.84	\$27.01	\$1.17	4.5%
Median Usage	617	\$25.84	\$23.88	(\$1.96)	-7.6%

Present & Proposed Rates (With Surcharges and Taxes) 5/8 x 3/4 Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$25.84	\$30.00	16.1%	\$22.65	-12.3%
1,000	25.84	33.00	27.7%	24.65	-4.6%
2,000	25.84	36.00	39.3%	26.65	3.1%
3,000	25.84	39.00	50.9%	30.65	18.6%
4,000	25.84	42.00	62.5%	34.65	34.1%
5,000	25.84	45.00	74.1%	38.65	49.6%
6,000	29.34	50.50	72.1%	42.65	45.4%
7,000	32.84	56.00	70.5%	46.65	42.1%
8,000	36.34	61.50	69.2%	50.65	39.4%
9,000	39.84	67.00	68.2%	54.65	37.2%
10,000	43.34	72.50	67.3%	58.65	35.3%
15,000	60.84	100.00	64.4%	97.70	60.6%
20,000	78.34	127.50	62.8%	136.75	74.6%
25,000	95.84	155.00	61.7%	175.80	83.4%
50,000	220.84	330.00	49.4%	371.05	68.0%
75,000	368.34	505.00	37.1%	566.30	53.7%
100,000	530.84	680.00	28.1%	761.55	43.5%
125,000	693.34	855.00	23.3%	956.80	38.0%
150,000	855.84	1,030.00	20.3%	1,152.05	34.6%
175,000	1,018.34	1,205.00	18.3%	1,347.30	32.3%
200,000	1,180.84	1,380.00	16.9%	1,542.55	30.6%

TYPICAL BILL ANALYSIS

5/8 x 3/4 Inch Meter

WITHOUT REFLECTION OF SURCHARGES IN CURRENT RATES

Average Number of Customers: 122

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	2,089	\$5.75	\$36.27	\$30.52	530.8%
Median Usage	617	\$5.75	\$31.85	\$26.10	453.9%
<u>Staff Recommend</u>					
Average Usage	2,089	\$5.75	\$27.01	\$21.26	369.7%
Median Usage	617	\$5.75	\$23.88	\$18.13	315.3%

Present & Proposed Rates (Without Surcharges and Taxes) 5/8 x 3/4 Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$5.75	\$30.00	421.7%	\$22.65	293.9%
1,000	5.75	33.00	473.9%	24.65	328.7%
2,000	5.75	36.00	526.1%	26.65	363.5%
3,000	5.75	39.00	578.3%	30.65	433.0%
4,000	5.75	42.00	630.4%	34.65	502.6%
5,000	5.75	45.00	682.6%	38.65	572.2%
6,000	6.25	50.50	708.0%	42.65	582.4%
7,000	6.75	56.00	729.6%	46.65	591.1%
8,000	7.25	61.50	748.3%	50.65	598.6%
9,000	7.75	67.00	764.5%	54.65	605.2%
10,000	8.25	72.50	778.8%	58.65	610.9%
15,000	10.75	100.00	830.2%	97.70	808.8%
20,000	13.25	127.50	862.3%	136.75	932.1%
25,000	15.75	155.00	884.1%	175.80	1,016.2%
50,000	28.25	330.00	1,068.1%	371.05	1,213.5%
75,000	40.75	505.00	1,139.3%	566.30	1,289.7%
100,000	53.25	680.00	1,177.0%	761.55	1,330.1%
125,000	65.75	855.00	1,200.4%	956.80	1,355.2%
150,000	78.25	1,030.00	1,216.3%	1,152.05	1,372.3%
175,000	90.75	1,205.00	1,227.8%	1,347.30	1,384.6%
200,000	103.25	1,380.00	1,236.6%	1,542.55	1,394.0%